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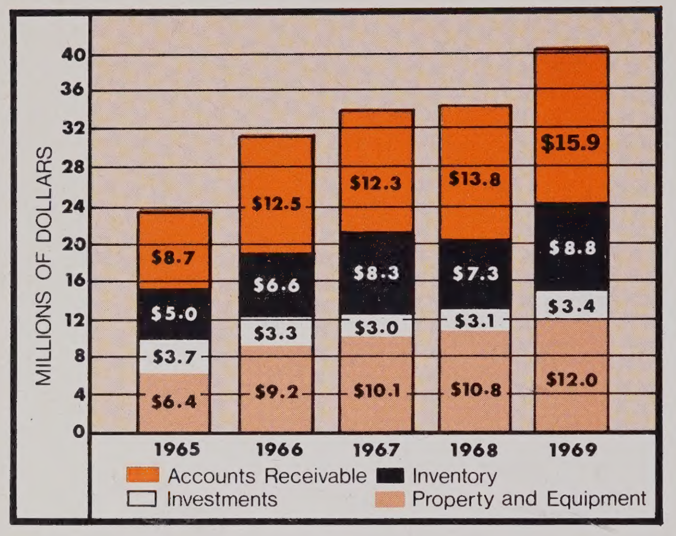
UNITED CO-OPERATIVES OF ONTARIO

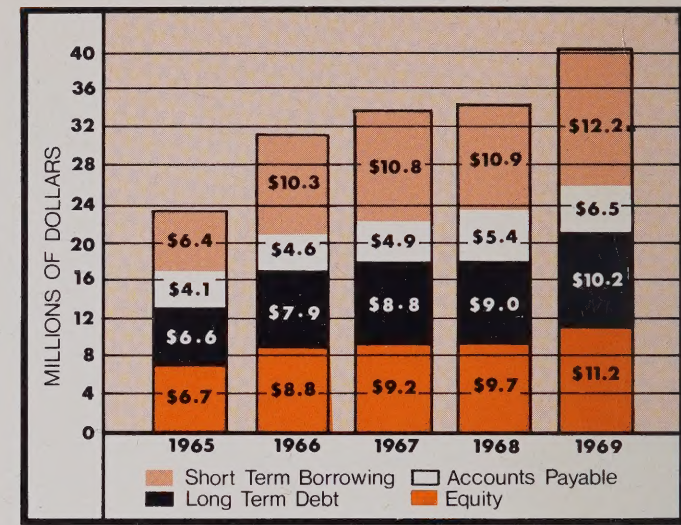
Annual Report 1969

Five Year Financial Highlights

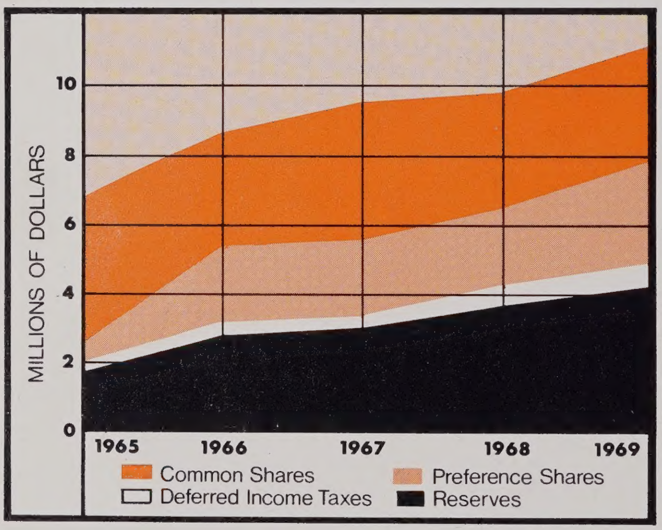
Total Assets



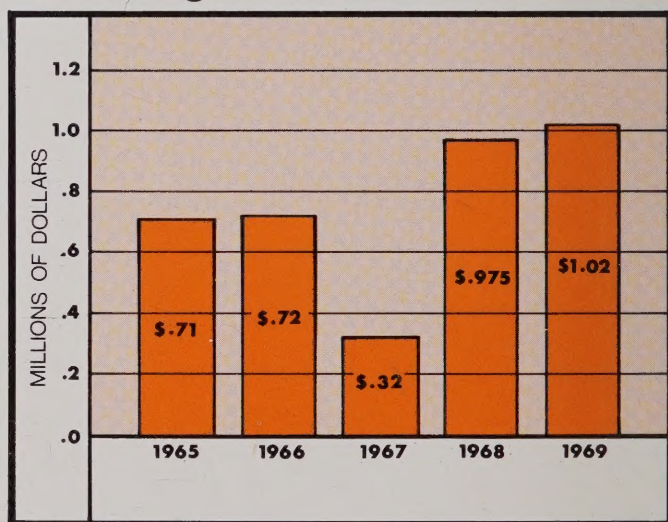
Total Liabilities & Equity



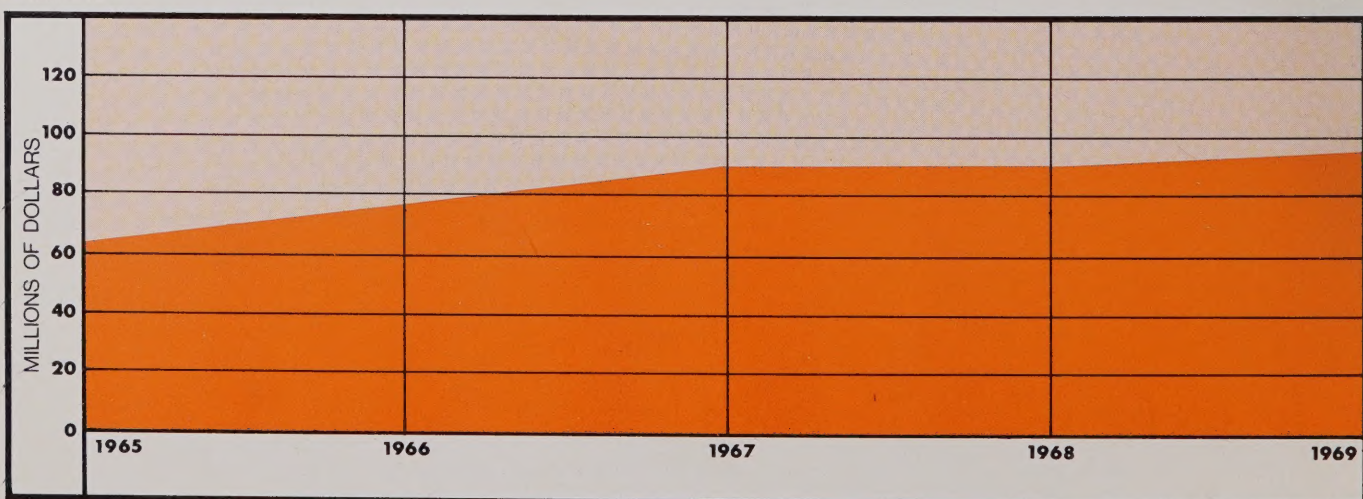
Equity



Net Savings Before Taxes



Sales



Directors Report

During the 1968-69 year your Co-operative has met the challenge of rising costs and an inflated economy. The Board is happy to report an increase in total sales volume with moderate earnings for the year.

Co-operative members may reap the benefits of providing themselves with the goods and services they need today and in the years ahead, only by building and maintaining a strong financial structure. There are no short-cuts. It is the continuing objective of your Board to build and maintain modern efficient operating facilities, to provide stability through setting aside adequate reserves and building and maintaining an able and well qualified staff.

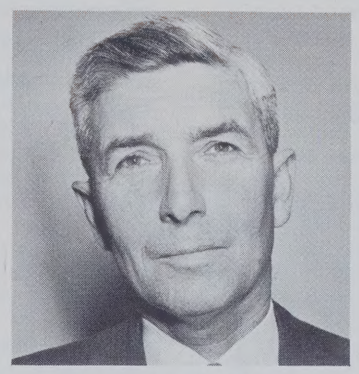
A number of sales building programs which proved successful and contributed to the overall sales volume were proposed by staff and authorized by the Board. These included:

1. Successful spring and fall sales.
2. CO-OP Showcase '69, a combined annual meeting and product show.
3. Project "2000" involved local boards and councils, UCO Directors and staff. Prospective members and patrons were visited and acquainted with CO-OP programs and services.
4. The introduction of new approaches was incorporated in the sales program. The application of this feature may be illustrated by the movement of twine direct from boat to local or branch and retailed at a marked reduction in price.

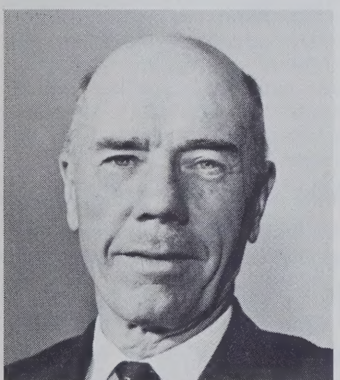
Activated sales programs were reflected in a number of operational areas.

A. Fertilizer tonnage increased while dollar value declined in an unsettled market. The movement into the blender operation at some locals and branches contributed to the increased share of the market enjoyed by UCO.

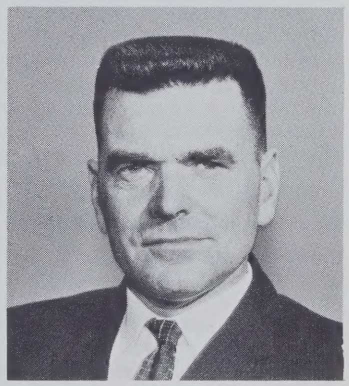
B. Feed volume was maintained.



R. S. McKERCHER
DUBLIN
President
Zone 7 Director

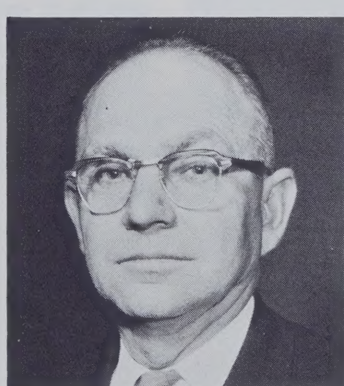


F. W. HAMILTON
GUELPH
Vice-President
Zone 6 Director

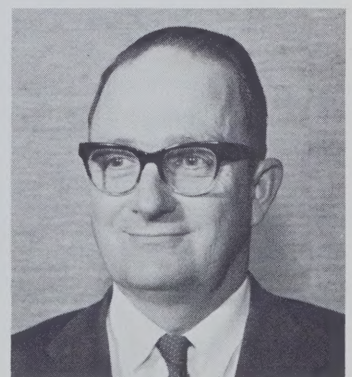


B. McCUTCHEON
PROTON
Vice-President
Zone 5 Director

N. M. MARSHALL
NORWICH
Zone 8 Director



F. G. CRYDERMAN
THAMESVILLE
Zone 9 Director



T. LANGMAN
HAWKESTONE
Zone 4 Director

C. Hardware and petroleum sales volume were highlights of the year, and possibly reflect a trend to more urban business.

D. Branch operations were most encouraging showing an overall contribution to earnings this year. The Board wishes to express its appreciation of the initiative and the enthusiastic effort put into the operations and sales programs by all members of UCO local and branch staff.

Youth

A successful youth camp was again participated in by 39 youths sponsored by Co-operatives and UCO branches across the Province. With these and similar youths rests the future of the co-operative movement.

Merger Program

The merging of local co-operatives with UCO moved ahead this year. The merged local co-operatives contributed to development of more compact, effective administrative units. Valleycrest, Forest, Norwich and Inwood were the local Co-ops merged this year, and interest is shown on the part of several locals to merge in 1970.

Increase return on debentures and financing by members

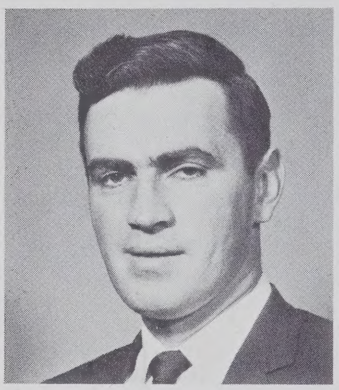
Realizing that strength of a co-operative lies in its membership, special emphasis is being placed on building membership in our co-operative.

In the continued support of members in financing and patronizing their co-operatives, lies our hope of building and maintaining a truly democratic way of life.

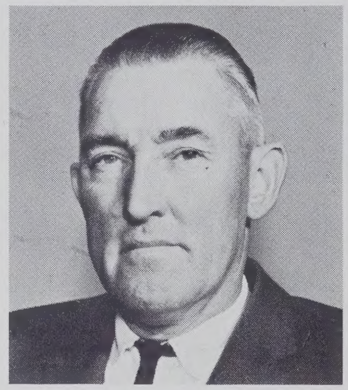
Co-operatives offer people the opportunity of owning and controlling their own farm and home supply service. They are membership organizations that are dependent on an active membership.

The importance of increasing membership, member volume and member financing cannot be over-emphasized. Discussions by elected people and key staff of UCO and its member co-operatives were held late in the calendar year. These led to general acceptance of a major drive by UCO Branches and local co-operatives. Planning is now underway for launching a membership and financing campaign in the spring of 1970.

It is the UCO objective to raise $400,000 in 6% preference share sales, sign up 2,000 members, and to increase member volume from the present 60% to 75% in 1970 and 1971. An equal amount of money and members is suggested as an objective for member co-operatives.



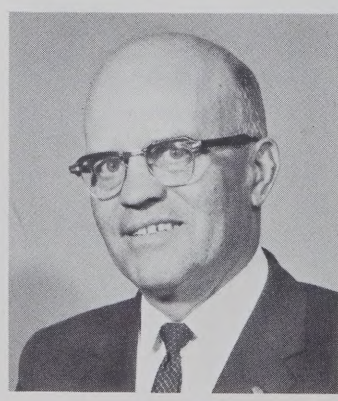
A. McINTOSH
ALMONTE
Zone 2 Director



H. K. STILLMAN
CAMPBELLFORD
Zone 3 Director

C. W. HUFFMAN
HARROW
Director-at-large

H. J. SCHMIDT
BADEN
Director-at-large



G. JACK
DRESDEN
Director-at-large

R. MARTIN
BAR RIVER
Zone 1 Director

Management Report

Growth, strength, redevelopment, co-ordination and participation all are important words in any adequate description of achievements of Ontario co-operatives in 1969. UCO has a most active and open program of information, if compared with any regional co-operative in the world. Such information is readily available to local directors and councillors and to employees of UCO and associated local co-operatives throughout the year on paper and in meetings. This year-end report represents a special annual round-up available to UCO's owners, friends, competitors and critics. In the complex situations of modern business, for a large regional co-operative, some of the same people appear in all these four categories.

This is the third year in the past eleven that UCO has achieved a million dollars in net earnings before income taxes. This has been possible by having no severe loss in any department and improved earnings in petroleum, hardware, feed and the total of retail branches.

UCO total sales for 1969 were ninety-six million dollars compared to eighty-eight million dollars the previous year. This is after removing nearly thirty million dollars of transfers among product departments, and between product departments and retail branches.

Total use of funds at year-end in UCO rose from twenty million dollars in 1964 to thirty-five million in 1968 and to forty million in 1969. Percentage of member equity in reserves, common shares, and preferred shares was maintained at approximately twenty-eight per cent, rising from five million dollars in 1964 to eleven million dollars in 1969. It requires nearly a million and a half dollars of depreciation to replace trucks and equipment and make a variety of smaller improvements in the two hundred pieces of UCO property across the province. A half million dollars is also spent on some larger additions to property.

It is gratifying that Ontario co-operatives have grappled as well as they have with tight money and high interest rates. Of course, the provincial organization is the shock absorber; through overdues by some locals, through helping some locals get more funds, through planning cash flow, through financing facilities at a number of local co-operatives, particularly for petroleum and fertilizer, and through mergers.

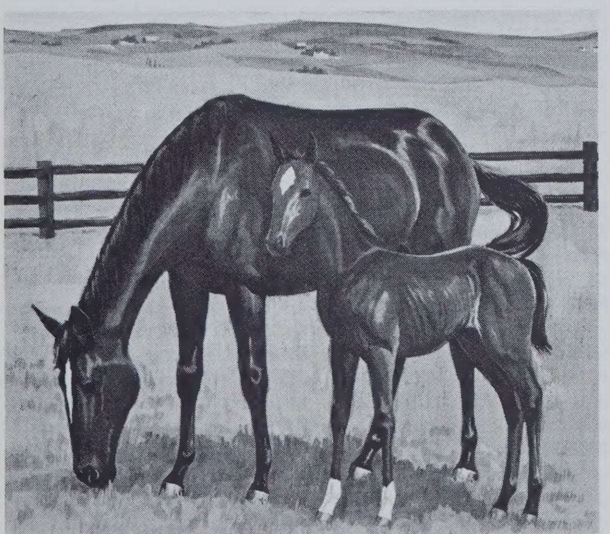
FEED & GRAIN

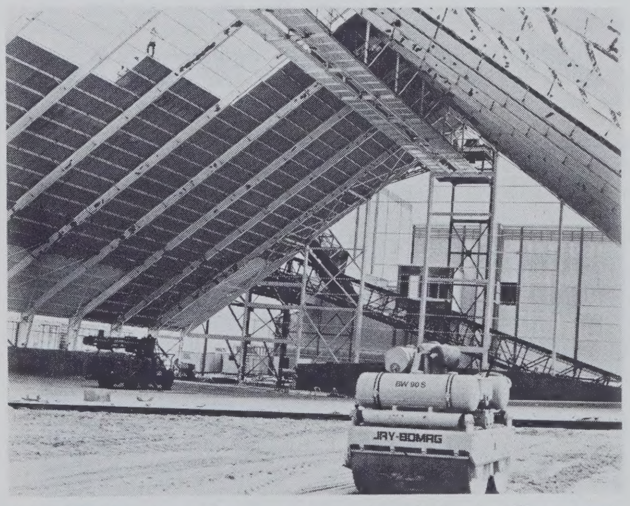
CO-OP Feed sales showed good growth with the strongest increase in broiler and turkey feeds and hog feeds. The growing horse population in Ontario brought about the demand and introduction of the new Challenger horse feed for co-operative patrons. In spite of an increase in wages and other cost items, UCO was successful in improving operating efficiency to produce some increase in feed earnings over the previous year.

Integrated planning of the local feed mills across Ontario with the three mills operated by UCO Feed Department has continued. The number of co-operative mills in operation has been reduced deliberately from one hundred and twenty-five, to less than a hundred and ten. This reduction should continue to a less than a hundred mills. The upgrading of mills at those points where justified has facilitated increasing volume with bulk handling and other services and economies. The new feed mill of moderate size planned for 1970 at Glencoe will fill one local gap in co-operative feed facilities for much of Lambton and Middlesex and answer an even greater need of recent years for pelletted feeds from a Co-op mill west of London.

Addition of a new unit for receiving and storage of grain beside the feed mill at Kemptville is made economically possible by supplying feed grain to the feed mill. It makes a desirable contribution to the marketing of corn for co-operators in Eastern Ontario. Further storage for grain at Guelph can contribute in similar directions.

UCO maintained its share of the market of Western feed grain and feed ingredients during 1968 and 1969 fiscal years. Expanded use of Ontario corn at lower prices and the better roles of Ontario barley and oats increased the local grains used and decreased Ontario "imports" from our "cousins" on the Canadian Prairies. By September this situation was reversing. The bad spring reduced the Ontario corn production; this lower local corn supply, and to a much greater degree the higher price of corn in the United States, shoved corn prices up again. On the other hand our Prairie cousins were embarrassed with mountains of wheat and other grains which threaten Eastern Canada with an avalanche of livestock products. Recent months of course have found Ontario's co-operatives, as well as other feed businesses, in all parts of the province, including major corn growing areas, answering the call of the farmer-feeder with larger quantities of lower priced barley from the West.





This 50,000 ton diammonium phosphate fertilizer warehouse at Barlow (Florida) Phosphate Works is part of a multi-mililon dollar capital improvement program initiated by Central Farmers Fertilizer Company since the Chicago firm purchased the 2,800-acre phosphate chemicals complex earlier this year.

CROP PRODUCTS

In the face of the chaos in fertilizer marketing in the United States and severe difficulties by all distributors and manufacturers in Canada, UCO earning position in fertilizer was much less favorable than last year, but the Ontario co-operative program gained tonnage and earned compliments from many farmer-users. The Ontario co-operative program, featuring procurement and manufacturing through Central Farmers Fertilizer Company and distribution through local warehouses and blenders, has saved co-operatives from the severe losses suffered by some others.

Heavy price competition in fertilizer brought a substantial decrease in fertilizer earnings. The continued program of good service and value backed up by retail bulk fertilizer warehouses and bulk blend fertilizer plants gave the co-operative fertilizer program, on sheer merit, a substantial increase in sales and an increased share of the Ontario fertilizer market.

Agricultural chemical sales showed a very substantial increase over last year. An aggressive herbicide program has made UCO the largest distributor of atrazine in Ontario. An active program in lawn and garden supplies contributed to good growth in chemicals, seed and fertilizer associated with this type of business. The excellent record of performance and growing acceptance of CO-OP hybrid corn generated close to a thirty per cent increase in sales of CO-OP hybrids.

Dr. Ramsis Girgis of UCO explains CO-OP corn breeding research to young farmers

PETROLEUM

The carefully planned long-term arrangements in this group of products is proving more and more valuable. The program continues to grow and evolve and improve,

CO-OP petroleum and propane service uses modern equipment such as this propane tanker.

on a unified Ontario basis. There is always a problem of satisfying situations at certain points and in certain periods without weakening the whole program which contributes importantly to co-operative operations locally and regionally. We must appeal to directors and managers at these points to recognize the inescapable relationship of past, present and future co-operative petroleum program in those localities with co-operative petroleum in other localities throughout Ontario.

In addition to the growing volumes of tractor fuel and furnace fuel in the country and the towns, two other opportunities deserve special attention. First, addition of even one or two per cent of the total furnace fuel used in major cities would add significant strength. We need new plans at Windsor, Chatham, London, Kitchener, Galt, Niagara, Hamilton, Guelph, Owen Sound, Toronto, Oshawa, Kingston, Ottawa and other cities. The second is propane which mainly does not lend itself to smaller local units and will need to be developed by UCO on more of a district basis.

HARDWARE

After lower volume and earnings, in 1968, this Department caught up to its trend to more volume and earnings in 1969. Planning in warehousing and delivery cut unit costs and improved service. Special plans provided unique values at most retail points on twine and anti-freeze. The basic role of Ontario co-operatives in general farm supplies is to maintain and improve the leading position on value and service through many times the number of stores compared with those operated by any other distributor in the province. But we must continue the special attractions of the huge Spring and Fall Sales. And we must attempt other dramatic "highlight items", such as the twine and anti-freeze at selected periods in 1969, in the form of "Co-operative Member Specials" on a cash-and-carry basis.

Ontario co-operatives continue to develop a broad range of household hardware, plus other household supplies and family "outdoors" items through many modern stores at retail points in both towns and cities. Some are becoming urban-rural stores rather than rural-urban stores. Procurement, product programming, warehousing and transportation are handled by the Hardware Department.

POULTRY DEPARTMENT

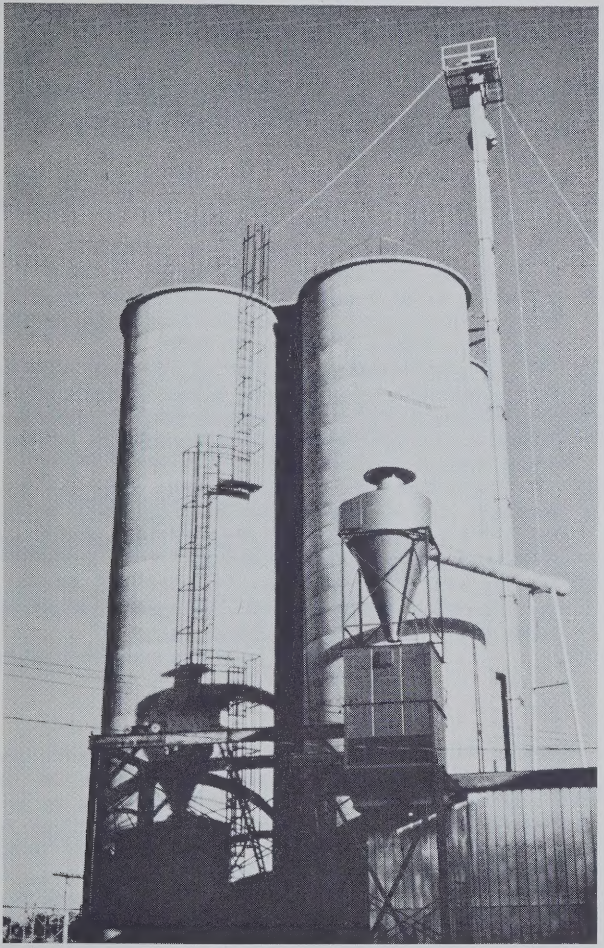
The poultry processing plant at Petersburg, the broiler and turkey feed sales, and the hatchery at New Dundee, were combined in one administration in the Poultry Department which has resulted in maximum growth, co-ordination and efficiency to best serve the highly integrated broiler and turkey industry. This co-ordinated approach not only supported the good volume in hatchery operations but contributed to substantial growth in poultry processing volume as well as a good increase in broiler and turkey feed sales. This was the first complete year of operation of the new UCO Hatchery. It was a most successful year with good operating results, and sales in excess of eight million baby chicks.

LIVESTOCK

UCO share of the market was increased at the Ontario Stockyards which continues as the most influential cattle market in Canada. UCO has brought new life to the Ontario Stockyards with major stocker sales that began five years ago and stepped up this past fall. The co-operatives still need more organization on slaughter cattle from country points. During the year Ontario got a new stockyards office building which greatly improves and expands the facilities, (and incidentally the rental costs) for UCO and the other commission firms. The greater need is for a new Stockyards Board of Directors composed of younger farmers, who are primarily livestock producers, and who are active users of the facilities they are charged with administering.

GRAIN MARKETING

An active program is maintained through the Chatham office on corn, wheat, and soybeans. The peculiarities of the production and marketing situation of the past year included extremely unfavourable weather-crop conditions in much of Essex, and an unprecedented sprouting of wheat. Substantial services continued on behalf of Ontario Wheat Producers.



Modern CO-OP grain storage has increased markedly in last five years.

In January 1969 many co-operators contributed to an informative Brief on Marketing and other aspects of corn presented to the Ontario Farm Income Committee meeting at London. Work has begun on a supplementary report by UCO on corn (to be available later this winter) taking account of the major changes of the intervening year.

UCO owned and operated no grain marketing elevators directly, five years ago. Now the results of twelve elevators appear monthly in UCO balance sheet and operating statement and, daily in UCO cash flow. Other local co-operatives with grain elevators are likely to merge with UCO soon. Therefore UCO Management has begun a special study of administration and financing in grain marketing, which will be discussed with UCO Board this winter.

GROCERIES

Earlier unsuccessful experience with co-operative grocery stores in southern Ontario, the scattered locations of the few operating in the Province, and occasional pressure for action by UCO in this field on an impractical scale, have provided UCO with ample reason for not touching groceries until recently. However, many recent developments justify a reassessment of early moderate practical action. Let no one fear any proposals to weaken UCO leadership in the farm supply fields. UCO must only "add groceries as well as other consumer goods to farm supplies" in ways which will add to UCO strength for its established functions in farm supplies and marketing of certain farm products.

Here are some major considerations regarding groceries:

1) Urbanization has increased rapidly in most parts of Ontario and the trends are strongly in this direction.
2) The so-called "direct-charge" plan has been proven in the Maritimes and is making significant strides in Ontario.
3) With strong assistance from CIAG, UCO is guiding many of the direct-charge units in sounder organization and finance, in management, in property, and in procurement of products.
4) UCO is serving with management agreements, direct-charge co-operatives at Ottawa, Peterboro and Oshawa.
5) The Oshawa direct-charge co-operative has two thousand members, is strongly backed by the United Auto Workers, is assisted by credit unions and the Ontario Co-operative Credit Society. In its first two months, sales indicate annual volume will equal three million dollars.

The Oshawa Direct Charge Co-operative opened its doors for business in the late fall. Left to right—Abe Taylor, President, Local 222, UAW, Adrian Grotenhuis, President of the new Co-op, Emile Mazey, Secretary-Treasurer of UAW's International Union, Detroit, and R. S. McKercher, President, UCO.

6) An experiment is soon to start in Northern Ontario with direct-charge grocery stores operating as part of UCO retail branches, along with conventional operations in petroleum and hardware.
7) UCO now operates attractive and successful grocery stores in retail branches at Port Elgin, Paisley, Markdale, Flesherton, Dundalk, Plantagenet and Uxbridge; UCO manages others at Gore Bay, Verner, Noelville, Lavigne, St. Charles and Shelburne.
8) For years co-operative grocery stores have been operating successfully at Timmins, Ansonville, Kapuskasing, Embrun and Penetang.
9) UCO is accustomed to using valuable procurement services from Interprovincial on chemicals, animal health products, and various hardware items. Our fellow regional co-operatives in the West, in Quebec and in the Maritimes, count heavily on Interprovincial for CO-OP brand groceries. In the first month of the operation of the Oshawa store, UCO provided it with about thirty-five tons of CO-OP brand groceries, which quickly moved from store to kitchens.

UCO RETAIL BRANCHES

Through recent years there have been extensive changes in retail facilities, whether owned by their members through local incorporated co-operatives, or owned by their members through UCO retail branches. For years we kept adding and modernizing feed mills. New mills were or are being built at Lindsay in 1968, Woodstock in 1969, and Glencoe in 1970. There was the first stores program of some ten years ago, carried through to a speed-up of store changes in the past couple of years. There has been the gradual build-up of green and gold petroleum trucks to a hundred in co-operative petroleum service to which have been added recently several gas bars, at retail outlets. There are the sixty recent local fertilizer warehouses and the still more recent thirty bulk blenders. One necessary and impressive, but sometimes costly, action has been relocation of facilities in recent years, usually from the centre of the town or city to the outskirts. Among these have been Ottawa, Stratford, Guelph, Kitchener, Norwich, Lindsay, Woodstock, Brampton, Arthur and Durham.

Regrouping of UCO retail branches, has provided important and necessary "rationalization". Within an administrative unit, having perhaps four places of business which formerly were in three co-operatives, we now may include the following changes: phasing one mill up, with a net increase in volume and practical service, phasing another mill down and closing one; delivering more petroleum with two trucks than formerly with three; co-ordinating the accounting through one point; and covering the previous gaps in sales and truck delivery.

Most UCO retail branches and a number of local co-operatives have given co-operatives generally, a new look by planned "refurbishing". A few hundred dollars in co-operative paint and some other touches have changed the whole picture at many places. In three years UCO has spent seventy thousand dollars at eighty branch points on this program. UCO Engineering Department has caught up with this work so sufficiently that at one point refurbishing began on local property the day after the members voted for a merger!

YOUR STAFF OF CO-OPERATORS

An organization which has operated for fifty-five years is bound to have veterans. Past-president Dan Stauffer provides an admonition: "Never forget: or you will be forgotten." So we recognize with gratitude, three veterans. Bob Croft, retired after forty-one years with the Livestock Department. Reg Heaney retired from Grain purchasing after twenty-eight years on UCO staff. Syd Scott proved the only person who has been on UFC-UCO staff for fifty years, and is busy needling his colleagues through his fifty-first year.

To all the other 1200 UCO employees who continued in their present jobs, who transferred to new jobs, or who joined the staff during the year; a hearty word of appreciation.

PLANS FOR 1970

In terms of capital expenditures, cash flow budget, and additional mergers, Plan A developed in the management group after much work on budgets by many people from May to early September. This was revised to Plan B which was approved by UCO Board in early October and taken to the Zone meetings in November. Plan B included a major increase in equity ratio by raising more preferred shares, by issuing this year's patronage returns half in common shares and half in preferred shares, by converting ten-year-old shares into preferred shares and by restricting the increase in UCO total assets for this year.

By December Plan C was emerging. Major addition to Plan B is increasing the number of mergers early in 1970 rather than in 1971 or later. Speed up is touched off considerably by the White Paper on Taxation, as well as the impatience of many co-operators to get on with the reorganization.

THE WHITE PAPER

It is far from clear as to how various points in the White Paper will be interpreted by the Department of Finance or implemented in law by 1971. Unlike Ontario the other federations of local co-operatives across Canada are not yet in the midst of major merger programs. Therefore they can more readily spend months appraising probable changes or even await their taking place. Not so with Ontario.

UCO, like other large regional co-operatives will need to adjust its plans as necessary. But if adequate information were available on the changes required by many local co-operatives, their officers might find in these aspects additional reasons for merging now. It is urgent that officers of local co-operatives have as much information as possible and study its probable consequences in days rather than months. Time is of the essence.

Subject to further analysis and information by UCO Annual Meeting and Showcase in January, the following appear among the important questions:

1) Will the member-patron be able to transfer the tax-paid reserve now serving him through his local co-operative, to his regional co-operative, unimpaired by taxation in the event of mergers? This has been the case with mergers in Ontario to date!
2) Will the greatly increased effect of not being able to reduce net earnings below a higher percentage of "capital employed" make it impractical for most co-operatives to use the method of patronage returns, either cash or deferred?
3) Will the advantage to having more than one co-operative at the twenty per cent tax rate rather than fifty per cent on the first thirty-five thousand of taxable net earning be removed?
4) Will the new provisions make financing and accounting and other planning much more complex for each separately incorporated co-operative?

THE NEXT MERGERS

Most of the first fifty co-operatives which have merged with UCO in the past five years decided to do so from need or desire. It now appears advisable to encourage a number of the other fifty co-operatives in similar lines to UCO to merge during the next three months. But future strength of Ontario co-operatives will be served best if the first mergers are by co-operatives which have high tax-paid reserves on their balance sheets; i.e., reserves as a relatively high percentage of total balance sheet, or as a large number of dollars.

Since these organizations tend to have good equity ratios and good prospects of net earnings they would strengthen the UCO balance sheet and operating statement. Merger methods have been developed to require much less work and confusion and expense than five years ago.

The important question now is whether ten co-operatives with high reserves will decide on mergers, effective before the end of March.

BUILDING WITH BOTH HANDS

One of the most encouraging developments in many years is the major program in which all of us now are engaged, on membership and member financing. During the Forties when most of the present co-operative units were organized we built with our left hand: the ideal, the ideas, the membership, the voluntary participation, the democratic organization of people. As we added facilities and finance and management and methods, we tended to concentrate on our right hand: building the business machine. Now we are going to do both. We take our left hand out from behind our back. We build with both our hands a balanced co-operative program.

UNITED CO-OPERATIVES OF ONTARIO

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

At September 27, 1969
(With comparative amounts at September 28, 1968)

ASSETS

	1969	1968
CURRENT		
Cash	$ 22,492	$ 20,937
Accounts receivable, less $750,117 allowance for doubtful accounts (1968 $775,501)	15,533,526	13,567,340
Current portion of investments and deferred accounts receivable	284,209	209,188
Merchandise inventories valued at the lower of cost or replacement cost	8,458,236	6,995,841
Prepaid expenses and supplies	385,140	337,004
Total current assets	24,683,603	21,130,310
DEFERRED ACCOUNTS RECEIVABLE	45,342	57,842
INVESTMENTS — at cost (note 2)	3,395,244	3,016,339
PROPERTY AND EQUIPMENT (note 3)	12,010,947	10,758,639
	$40,135,136	$34,963,130

LIABILITIES AND MEMBERS' EQUITY

	1969	1968
CURRENT		
Bank loan — secured (note 4)	$11,165,453	$ 8,980,529
Notes payable	992,269	1,890,209
Accounts payable and accrued liabilities	6,314,252	5,209,490
Current portion of long term debt	120,181	93,978
Income taxes payable	92,149	121,050
Total current liabilities	18,684,304	16,295,256
DEFERRED INCOME TAXES — (note 5)	669,600	542,800
LONG TERM DEBT (note 6)	10,203,585	8,968,563
Total liabilities	29,557,489	25,806,619
MEMBERS' EQUITY		
Preference shares (note 7)	3,057,870	2,229,006
Common shares (note 7)	3,303,553	3,301,755
General reserve	4,216,224	3,625,750
Total members' equity	10,577,647	9,156,511
	$40,135,136	$34,963,130

See the accompanying notes to these financial statements.

Approved by The Board:
R. S. McKERCHER, Director
F. W. HAMILTON, Director

UNITED CO-OPERATIVES OF ONTARIO

and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

For The 52 Weeks Ended September 27, 1969
(With comparative amounts for the 52 weeks ended September 28, 1968)

	1969	1968
SALES	$96,534,511	$88,262,178
COST OF GOODS SOLD	83,863,062	76,803,890
GROSS MARGIN	12,671,449	11,458,288
COMMISSIONS — livestock	375,526	344,268
— grain marketing	34,269	31,677
	13,081,244	11,834,233
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	12,060,767	10,858,700
INCOME BEFORE INCOME TAXES	1,020,477	975,533
INCOME TAXES (note 5)	315,100	340,365
NET SAVINGS FOR THE PERIOD BEFORE PAYMENT OF PATRONAGE RETURNS (note 9)	$ 705,377	$ 635,168

The following amounts have been deducted in arriving at net savings:

Investment income, deducted from general and administrative expense	$ 186,808	$ 159,757
Depreciation	1,393,823	1,180,424
Remuneration of directors and senior officers	175,652	150,928
Interest on long term debentures and long term debt	608,950	542,728
Interest on short term loans	987,424	808,164

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For The 52 Weeks Ended September 27, 1969
(With comparative amounts for the 52 weeks ended September 28, 1968)

	1969	1968
Balance at beginning of period	$ 3,625,750	$ 2,928,693
Add: Net savings for period	705,377	635,168
Credit arising from revaluation and collection of branch accounts receivable	436,527	22,031
Unredeemed balance of preference shares called for redemption prior to 1953	55,000	—
Gain (loss) on disposal of fixed assets	(119,463)	42,441
	4,703,191	3,628,333
Less: Patronage returns for preceding year (note 9)	370,970	—
Dividend on preference shares (note 8)	115,997	2,583
	486,967	2,583
Balance at end of period	$ 4,216,224	$ 3,625,750

See the accompanying notes to these financial statements.

UNITED CO-OPERATIVES OF ONTARIO

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 27, 1969

1. PRINCIPLES OF CONSOLIDATION

The accounts of the wholly-owned subsidiary companies which are consolidated, Patrons Capital Funding Limited, Patrons Acceptance Limited and Tend-R-Flesh Limited, the latter being a non-operating subsidiary, are as at September 27, 1969.

2. INVESTMENTS

a) Investment in non-consolidated subsidiary	$ 30,000
b) Other investments	3,365,244
	$ 3,395,244

a) The assets, liabilities, income and expenses of Twin Pines Apartments Limited, a wholly-owned subsidiary have not been consolidated in the attached financial statements, because of the dissimilar nature of its operations. Savings of Twin Pines Apartments Limited for the fiscal year ended March 31, 1969 were $1,804 and the aggregate savings since acquisition are $16,728. The book value of the shareholders' equity at March 31, 1969 was $229,192.

None of the savings of this unconsolidated subsidiary has been taken into the income of United Co-operatives of Ontario.

b) Other investments consist of:

	Sept. 27, 1969	Sept. 28, 1968
Shares in other companies	$ 1,052,963	$ 777,091
Loans to other companies	250,101	218,026
Debentures	490,060	495,560
Loans for local co-operative facilities	227,065	139,872
Properties	331,683	336,920
Mortgages	1,288,581	1,215,608
	3,640,453	3,183,077
Less: Current portion shown under current assets	275,209	196,738
	$ 3,365,244	$ 2,986,339

Details of investments in mortgages are:

	5¼%	6%	7%	7½%	8%	9%	10%	12%	Total
First Mortgages									
Due 1969-1974		$43,975	$ 18,890		$ 7,225	$ 19,000		$ 332	
1977-1983	$700,953	43,449							
	700,953	87,424	18,890		7,225	19,000		332	$ 833,824
Second Mortgages									
Due 1970-1974		11,000	69,377		17,603	28,420		3,600	
1975-1978			45,970			48,241			
		11,000	115,347		17,603	76,661		3,600	224,211
Third Mortgages									
Due 1970-1974			8,100			18,645	19,777		
1975-1979			7,800	9,300	48,333	130,891			
			15,900	9,300	48,333	149,536	19,777		242,846
	$700,953	$98,424	$150,137	$9,300	$73,161	$245,197	$19,777	$3,932	1,300,881
Mortgage reserve									12,300
									$1,288,581

3. PROPERTY AND EQUIPMENT

Assets — at cost	Sept. 27, 1969	Sept. 28, 1968
Land	$ 592,947	$ 529,348
Buildings	7,862,011	7,019,890
Machinery and equipment	8,888,292	7,687,550
Automobiles and trucks	2,933,109	2,654,840
	20,276,359	17,891,628
Accumulated Depreciation		
Buildings	1,803,935	1,584,024
Machinery and equipment	5,002,737	4,331,907
Automobiles and trucks	1,458,740	1,217,058
	8,265,412	7,132,989
Net book value	$12,010,947	$10,758,639

4. BANK LOAN

The bank loan is secured by a general assignment of book debts and inventories.

5. INCOME TAXES

The income taxes in respect of the year ended September 27, 1969 amount to $188,300. The difference of $126,800 between this amount and the taxes charged against income, results from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This difference is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is, accordingly, included in the balance sheet in the item "Deferred Income Taxes".

6. LONG TERM DEBT

Details of amounts outstanding were:

Debentures

						COMPOUND			
	5%	5½%	6%	7%	8%	6%	7%	8%	Total
1970	$ 400		$ 512,900	$ 8,200	$ 2,000				$ 523,500
1971	3,600		701,700	19,300	9,000				733,600
1972	94,900	$ 9,250	32,200	4,400	3,300				144,050
1973	107,670	4,551	7,000	3,233					122,454
1974	75,850	802	3,790	5,000	5,000				90,442
1975	62,600	57,675	10,628	3,500					134,403
1976	95,400	34,466	229,130	27,491	2,500				388,987
1977	200,800		228,475	62,102	6,500				497,877
1978	111,400	500	66,955	1,633,778	39,750	$135,228		$ 8,884	1,996,495
1979	30,800		26,400	621,137	628,138	93,231	$34,213	158,920	1,592,839
1980			127,700	188,965	26,000	38,583		6,579	387,827
1981			164,460	146,200	763,288			101,214	1,175,162
1982		34,300	77,948	123,600	49,930				285,778
1983		8,700	35,850	85,700	37,000			5,172	172,422
1984		21,500	25,335	71,900	69,000			2,934	190,669
1985		8,500	124,869	74,092	45,500				252,961
1986			98,790	91,375	404,350			1,752	596,267
1987			7,319	56,470	38,300				102,089
1988			6,500	30,080	25,700				62,280
1989			2,500	21,000	61,300				84,800
1990			3,500	10,000	2,000				15,500
	$783,420	$180,244	$2,493,949	$3,287,523	$2,218,556	$267,042	$34,213	$285,455	$9,550,402

Mortgages

Province of Ontario		
4% due 1971	$ 9,000	
5% due 1977-1979	60,363	
6% due 1971-1986	604,868	
	674,231	
Less: Principal repayments due within one year	68,932	
		605,299

Other Loans

6% due 1969-1970	20,925	
7% due 1973	14,200	
8% due 1971-1989	42,758	
	77,883	
Less: Principal repayments due within one year	29,999	
		47,884
TOTAL LONG TERM DEBT		$10,203,585

During the year, new debentures totalling $1,566,848 were issued and debentures totalling $412,166 were redeemed.

7. SHARE CAPITAL

Preference Shares

Class "A" 5%, class "B" 6%, cumulative, non-voting, preference shares with a par value of $10 each, redeemable at par

Common Shares

Co-operative common shares with a par value of $10 each, redeemable at par

Authorized

	Preference Class "A"		Preference Class "B"		Common		Total
	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount	Amount
Balance authorized September 28, 1968	860,718	$8,607,180	696,906	$6,969,060	792,144	$7,921,440	$23,497,680
Redeemed during the year	11,235	112,350	10,473	104,730	25,417	254,170	471,250
Balance authorized September 27, 1969	849,483	$8,494,830	686,433	$6,864,330	766,727	$7,667,270	$23,026,430

Changes during the year in shares issued and outstanding were as follows:

ISSUED DURING THE YEAR

	Outstanding September 28, 1968		For 1968 Patronage		For Cash		For Net Assets Acquired From Local Co-ops		Redeemed During The Year		Outstanding September 27, 1969	
	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount
Preference Shares												
Class "A"—Fully paid					144	$ 1,440			11,059	$110,590		
—Part paid					2	17			176	776		
	200,118	$1,979,767			146	$ 1,457			11,235	$111,366	189,029	$1,869,858
Class "B"—Fully paid					34,927	$349,270	67,886	$678,860	10,297	$102,970		
—Part paid					55	307	2,904	14,160	176	854		
	25,041	$ 249,239			34,982	$349,577	70,790	$693,020	10,473	$103,824	120,340	1,188,012
Total preference shares outstanding												$3,057,870
Common Shares												
Fully paid			17,797	$177,970	311	$ 3,110	2,102	$ 21,020	24,847	$248,470		
Part paid			9,050	35,021	21	181	3,657	15,222	570	2,256		
	340,584	$3,301,755	26,847	$212,991	332	$ 3,291	5,759	$ 36,242	25,417	$250,726	348,205	
Total common shares outstanding												3,303,553

The net assets of local co-operatives acquired during the year were as follows:

Accounts receivable	$ 642,383	
Inventories	784,400	
Fixed assets	1,028,148	
Other assets	96,749	
		$2,551,680
Current liabilities	1,003,194	
Long term debt	236,150	
		1,239,344
Purchase price		$1,312,336

The consideration for the purchase was:

Offset of amount owing to UCO		$ 434,222
Debentures		148,852
Preference shares — class "B"	$693,220	
Less: Preference shares held by local co-operatives	200	
		693,020
Common shares	163,926	
Less: Common shares held by local co-operatives	127,684	
		36,242
		$1,312,336

8. DIVIDENDS

In September, 1969 the Board of Directors authorized the payment of dividends on preference shares. A dividend payment of $137,258 was made subsequent to the year-end.

9. PATRONAGE RETURNS

In November, 1969 the Board of Directors authorized a patronage refund to members of $443,600.

10. PENSION

The amount charged to operations in 1969 in respect to employees' pension plan includes payment on account of past service. These past service pension costs are being funded over a period not exceeding twenty-one years. Based on the most recent independent actuarial report, the single sum liability for unfunded pension benefits is estimated to be $351,000 at September 27, 1969.

11. COMMITMENTS AND CONTINGENCIES

	Sept. 27 1969	Sept. 28, 1968
Common shares to be redeemed	$ 200,080	$ 213,480
Uncalled balance of shares subscribed for in other companies	167,950	179,850
Guarantee of loans to other companies	—	100,000

12. ACQUISITION OF LOCAL CO-OP FACILITIES

During the year United Co-operatives of Ontario acquired the assets and assumed the liabilities of four local co-operatives. The business previously conducted by the local co-operatives has been carried out since the acquisition dates as branch operations of United Co-operatives of Ontario.

UNITED CO-OPERATIVES OF ONTARIO

and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For The 52 Weeks Ended September 27, 1969

(With comparative amounts for the 52 weeks ended September 28, 1968)

	Sept. 27 1969	Sept. 28, 1968
SOURCE OF FUNDS		
Funds derived from operations		
Net savings for the period	$ 705,377	$ 635,168
Add: Depreciation — a charge to operations which did not require the outlay of funds	1,393,823	1,180,424
Deferred income taxes	126,800	116,300
	2,226,000	1,931,892
Credit arising from revaluation and collection of branch accounts receivable	436,527	22,031
Common shares issued	252,524	3,782
Preference shares issued	1,044,054	124,778
Debentures issued	1,566,848	884,543
Increase in mortgages payable	80,340	—
Decrease in book value of deferred accounts receivable	12,500	13,700
Disposal of property and equipment	269,362	114,195
Gain on disposal of fixed assets	—	42,441
Preference shares called for redemption prior to 1953	55,000	—
APPLICATION OF FUNDS	5,943,155	3,137,362
Patronage returns	370,970	—
Payment of dividends on preferred shares	115,997	2,583
Common shares redeemed	250,726	247,489
Preference shares redeemed	215,190	119,342
Debentures redeemed	412,166	434,355
Addition to property and equipment	2,915,493	1,948,325
Increase in other investments	378,905	74,899
Decrease in mortgages payable	—	268,919
Loss on disposal of fixed assets	119,463	—
	4,778,910	3,113,912
INCREASE IN WORKING CAPITAL	1,164,245	23,450
WORKING CAPITAL BEGINNING OF PERIOD	4,835,054	4,811,604
WORKING CAPITAL END OF PERIOD	$ 5,999,299	$ 4,835,054

STATEMENT OF PATRONAGE RETURNS TO MEMBERS

For The 52 Weeks Ended September 27, 1969

(With comparative amounts for the 52 weeks ended September 28, 1968)

	1969	1968
Hardware	$ 19,098	$ 15,619
Gasoline and heating oils	102,581	102,149
Propane	4,767	4,609
Fertilizer	19,239	43,523
Grain	9,495	9,674
Premix, supplements, feeding oil and animal health products	51,752	53,855
Balanced and broiler feeds	13,690	11,608
Agricultural chemicals	7,050	—
Seed	4,393	—
Retail	211,535	129,933
	$ 443,600	$ 370,970

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To the Shareholders
United Co-operatives of Ontario

AUDITORS' REPORT

We have examined the consolidated balance sheet of United Co-operatives of Ontario and its wholly-owned subsidiary companies, Tend-R-Flesh Limited, Patrons Capital Funding Limited and Patrons Acceptance Limited, as at September 27, 1969 and the consolidated statement of operations, general reserve and source and application of funds for the 52 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the co-operative and its wholly-owned subsidiary companies indicated above, as at September 27, 1969 and the results of its operations and the source and application of its funds, for the 52 weeks then ended, in accordance with generally accepted accounting principles applied on a consistent basis with that of the preceding year.

G. H. Ward & Partners

Toronto, Ontario
November 24, 1969

Chartered Accountants

UCO

UNITED CO-OPERATIVES OF ONTARIO

35 Oak Street Weston, Ontario